

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6902

BILL NUMBER: SB 514

DATE PREPARED: Jan 8, 2002

BILL AMENDED:

SUBJECT: Property tax abatements.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill exempts certain manufacturing equipment and research and development equipment located in Kokomo and receiving a property tax abatement from a provision that denies the abatement in the first year of the abatement period if the abatement would cause the property owner's assessed value located in the city to be less than it was in the previous year. The bill also updates population parameters to reflect changes in the 2000 decennial census.

Effective Date: July 1, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a property tax abatement for new manufacturing and research and development equipment may not cause a taxpayer's assessed valuation to be lower than it was in the preceding year. Under this provision, a taxpayer in an ERA approved before January 1, 2003 who has placed new equipment for electronics production into service in Kokomo with a total cost exceeding \$50 M would not be subject to this minimum assessment. This bill would be effective with taxes first paid in CY 2004.

Since tax abatements cannot reduce the existing tax base under current law, an abatement does not cause an increase in the property tax rate. As the abated value is gradually placed on the tax rolls, part of the property tax burden is shifted from all taxpayers to the owners of the abated property in the form of a reduced tax rate.

However, if the abatement reduces the taxpayer's existing assessment under this provision, then the property tax rate for all taxpayers would rise to compensate for the reduced valuation base, shifting part of the tax burden from the taxpayer receiving the deduction to all taxpayers. The tax rate would still be reduced over time as the property's value is gradually placed on the tax rolls.

At least one taxpayer has been identified as possibly being affected by this provision. Neither this taxpayer, nor any other taxpayer in Kokomo has made an investment yet that would qualify under this bill. Therefore, the total investment, and more importantly, the potential amount of abatement that would reduce the tax base under this bill is unknown. The actual fiscal impact would depend on the investment level, the abatement granted, and the makeup of the taxpayer's other personal property (needed to determine whether there would be any loss of valuation).

If the tax base is reduced, total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: Howard County Auditor; Civil taxing units and school districts in Kokomo.

Information Sources: